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July 18, 2002

Mr. Kamyar Guivetchi, Chief
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California Department of Water Resources
PO Box 942836
Sacramento CA 94236-0001

Subject: Study Plan Recommendations for 2003 State Water Plan:
A response package with progressive economic reforms

Dear Kamyar:

These comments reflect the views of our organizations on the "Response Packages" that have been presented to the Public Advisory Committee for the State Water Plan. Of course, each of our organizations reserves the right to comment separately on these issues as well. The 2003 State Water Plan should be an historic document and we look forward to continuing to work constructively with both staff and the other members of the Public Advisory Committee.

We have reached the point in the California Water Plan 2003 process in which we must select a few packages of study plans to analyze and study in the Plan. As we understand it, the Advisory Committee (AC) and DWR staff must select approximately four water management approaches or "response packages" to study at various levels of demand. These response packages will be comprised of various combinations of our response factors, which are listed at the bottom of "Table 1". Below we explain the response package that we wish to analyze and study in the Plan. As explained in a previous memo from Environmental Defense to the AC, we are not asking for every member of the AC to agree with the water management concepts we explain below. Rather, we ask that the AC agree to incorporate these concepts for the purposes of analysis. Likewise, we expect that the Plan will also analyze study plans that we would not support as a matter of policy.

Our Suggested Response Package
We recommend that the Plan incorporate a study plan of the following six-point list of progressive economic reforms, explained in further detail below. Note that, after each bullet below, we have indicated the response factor (and the range within that factor) that represents this concept.

- A marginal cost pricing policy that gives cost signals to urban and agricultural water users for new water supplies.
    - Factor: Rate Structure
    - Range: Marginal increments of use charged at marginal rate
- A policy that eliminates existing water subsides such as those associated with CVP water use.
    - Factor: Cost recovery
    - Range: Marginal and existing costs recovered from all users (all costs recovered from users)
- An aggressive transfer policy with exceptions for critical urban uses, public trust water, tribal rights, etc.
    - Factors: Water Transfers Within Regions/Water Transfers Between Regions
    - Ranges: Substantial increase in water sales and exchanges
- The implementation of all water conservation and reclamation measures that are locally and/or regionally cost-effective.
    - Factors: Urban WUE and Ag WUE
    - Ranges: A combination of the top range, "Maximum increase…" and the upper middle range, "Only cost-effective BMPs, EWMPs…"
- A statewide groundwater policy that defines ownership of groundwater supplies;
    - Factor: Integrated Surface/Groundwater Management
    - Range: Statewide (integrated) reoperation to maximum reliability
- A statewide policy that measures the use of all nontrivial groundwater and surface water supplies.
    - This generally falls under the category of rate structure/cost recovery. If you can't meter the water, then you can charge for incremental use of that water.

Marginal Cost Pricing for Incremental Use. The study plan should incorporate an analysis in which end-users, in both the urban and agricultural sectors, have economic choices about how much water to consume by facing increasing rates for increasingly expensive supplies. These supply rates would reflect the marginal cost, or full cost, of developing and consuming incremental units of water. In Environmental Defense's April memo to the AC, "Water Pricing Factor Language", marginal costs are defined as full costs, including "amortized capital, operation, environmental, and third-party impact costs." See the memo referenced above along with Environmental Defense's other April memo to the AC, "The Rationale for Marginal Cost Pricing of Water" for additional an explanation of this issue.

The Elimination of Public Subsidies for Existing Use. The study plan should analyze the effects of eliminating current public subsidies for water use, causing users to pay the full cost of the water supplied to them, including capital, operation, environmental, and third-party costs. The most obvious application of this analysis would be with respect to CVP water use. Although Reclamation law states that CVP users must repay their total capital costs incurred since 1949 by the 2030's, as of 1998, those users had repaid only 5.27 % of the total capital costs allocated to them (see Environmental Defense's April memo to the AC, "Water Pricing Factor Language", Table 1). If interest were required during repayment, the actual repayment percentage would be even lower. At the very least, this study plan should examine the impacts of ensuring compliance

with CVP repayment under Reclamation law. (Arguably, this item could be considered as part of the alternative demand levels.)

An Aggressive Transfers Policy. The study plan should incorporate an aggressive transfers policy that treats most of the water that is developed for urban and agricultural consumptive use as a commodity to be bought and sold to its most efficient use. Note, however, that there are some important exceptions to this proposed policy. We wish to see studied only those water transfers for quantities of water that exceed those amounts already dedicated to California's baseline environmental, health, safety, and justice needs. This baseline includes all water needed to meet environmental regulations, guarantee tribal rights, satisfy the public trust doctrine, and ensure the health and safety of California's residents.

Cost-effective Water Conservation and Reclamation. The study plan should incorporate all water conservation and reclamation measures that are cost-effective (though in some cases the impacts of conserving water on the environment or third parties should be considered). Note that, under a progressive transfer policy, additional water conservation and reclamation measures are likely to be viable, as their cost-effectiveness will be evaluated on a regional, rather than a local, basis.

A Statewide Groundwater Policy. The study plan should incorporate a groundwater policy that defines ownership of groundwater supplies. In much of California, there is little or no regulation of groundwater pumping, which often adversely affects neighboring landowners, the public interest, or both. If ownership of these supplies is defined (and pumping monitored), thoughtful management decisions can be made. Under the current system, there is often no incentive to manage groundwater; instead, there are only incentives to extract it quickly before it is all gone, with classic "tragedy of the commons" results.

A Statewide Metering Policy. The study plan should incorporate a statewide metering policy that ensures the metering of all nontrivial groundwater and surface water supplies. Some significant water uses in California, including urban water use in Sacramento, Fresno and other cities, is currently not metered at all.

Thank you for consideration of these views.

Sincerely,

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cc: Bulletin 160 Advisory Committee and DWR Staff